

NATIONAL FOREIGN ASSESSMENT CENTER

WASHINGTON, D. C. 20505

3 DEC 1981

MEMORANDUM FOR: Ambassador Jeane J. Kirkpatrick
Permanent Representative to the United Nations

SUBJECT : The Impact of Global Negotiations on
International Financial Institutions [redacted]

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1. Attached is the memorandum you requested that describes the impact of
Global Negotiations on the international financial institutions. [redacted]

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2. Questions may be directed to Chief, Third World Issues Branch, Economics
Division, [redacted]

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[redacted]
Director
Global Issues

Attachment:

Impact of Global Negotiations in the UN
on International Financial Institutions,
GI-M-81-10244, December 1981 [redacted]

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CENTRAL INTELLIGENCE AGENCY
National Foreign Assessment CenterImpact of Global Negotiations in the UN
on International Financial Institutions ☐

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Summary

At the Cancun Summit in October leaders of 22 industrialized and developing countries agreed to renew attempts to launch a process of Global Negotiations in the United Nations. The Third World appears ready to compromise utopian plans for restructuring the world economy and accept negotiations that would provide procedural protection for the competence of the World Bank and the International Monetary Fund. Global Negotiations in the UN will provide the Third World political leverage to accelerate evolutionary change in the international financial institutions but will not damage their independent legal status or autonomous decisionmaking. ☐

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This memorandum was prepared by ☐
Office of Global Issues, at the request of Ambassador Jeane J. Kirkpatrick, Permanent Representative to the United Nations. It has been coordinated with the Office of East Asian Analysis and the Office of European Affairs within NFAC. Information available as of 2 December 1981 has been used. Comments and queries are welcome and may be addressed to Chief, Third World Issues Branch, Economics Division, Office of Global Issues ☐

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GI-M-81-10244
December 1981

Impact of Global Negotiations in the UN
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The Global Negotiations Debate

The ambiguous final report issued at Cancun did not set any time frame or mechanism to begin Global Negotiations. To keep the process alive the UN General Assembly must pass a resolution before its current session ends in late December. However, the United States and the LDCs' caucus, the Group of 77 (G-77), maintain quite different concepts of Global Negotiations. ☐

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The G-77 wants Global Negotiations based on General Assembly Resolution 34/138. In 1979 the General Assembly decided to launch a round of global and sustained negotiations to restructure "international economic relations on the basis of the principles of justice and equality." Negotiations were to take place within the UN system on such topics as raw materials, energy, trade, development, and money and finance. The General Assembly was given a central role to ensure a coherent and integrated approach involving the simultaneous participation of the specialized agencies. ☐

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The United States now rejects 34/138 and will seek new language compatible with the four "understandings" it advanced at Cancun. The US insists that Global Negotiations:

- o Deal with specific, identifiable obstacles to development.
- o Not create new institutions or weaken the power of specialized agencies such as the IMF and World Bank.
- o Focus on international growth and development that is mutually beneficial to both industrialized states and LDCs.
- o Take place in a cooperative, nonpolemic atmosphere. ☐

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The President of the General Assembly, Ismat Kittani, is consulting with UN delegations in an attempt to reach a consensus solution. He probably will be able to achieve an ambiguous new resolution that launches Global Negotiations, but without

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making Resolution 34/138 the basis for the negotiations. If such a solution is accepted, Global Negotiations could begin in early 1982. ☐

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The UN and the Specialized Agencies

The UN and the International Monetary Fund and International Bank for Reconstruction and Development (World Bank) are distinct international organizations that derive their power from separate treaties. While the General Assembly has the power to discuss and make recommendations, it has no control over the Fund or the Bank. The General Assembly by passing a resolution cannot alter the basic allocation of legal powers in the UN Charter and transform itself into a decisionmaking body or change the nature of the relationship with specialized agencies. The formal mechanism of interaction between the agencies and the UN is a process of consultation and recommendation. Each organization is required to "consider" proposals or recommendations of the other, but there is no commitment to act. The founding agreements also provide for reciprocal representation, exchange of information, and various liaison functions. ☐

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The link between the United Nations and the international financial institutions is defined in the UN Charter, the Articles of Agreement of the IMF and the World Bank, and separate agreements that brought the specialized agencies into relationship with the United Nations. It is important to note that the IMF and the World Bank may terminate their relationship with the UN upon six months' written notice. ☐

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According to the Charter, the General Assembly may make recommendations concerning international economic cooperation. It has broad powers to discuss any question or matter relating to the powers and function of the specialized agencies and may make recommendations for the coordination of the policies and activities of these agencies. ☐

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The UN Charter indicates that the specialized agencies are established by

25X1 intergovernmental agreements and that their wide international responsibilities are defined in their own founding instruments. The UN Economic and Social Council is the body that is authorized to enter into agreements with specialized agencies that determine their relationship with the United Nations, subject to approval by the General Assembly. ☐

25X1 The Articles of Agreement for the World Bank and the IMF authorize cooperation with other international organizations. Any arrangement for cooperation that involves a modification of any provision of the Articles is subject to an amendment procedure. This requires the approval of the Board of Governors where weighted voting applies and acceptance by three-fifths of the members with four-fifths of the voting power. As a practical matter, the US currently can veto any amendment because of its voting strength. ☐

25X1 The agreements that brought the IMF and the World Bank into relationship with the UN specifically acknowledged the autonomous nature of these financial institutions. The agreement with the Bank provides that "by reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Bank is, and is required to function as, an independent organization." With respect to the sensitive issue of loans, for example, the UN explicitly recognizes that "action to be taken by the Bank on any loan is a matter to be determined by the independent exercise of the Bank's own judgment." The UN also recognizes that "it would be sound policy to refrain from making recommendations to the Bank with respect to particular loans or with respect to terms or conditions of financing by the Bank." ☐

G-77 Demands for Change in the Specialized Agencies

As long as the process of Global Negotiations is kept within the UN framework the General Assembly can do nothing more than make recommendations to the international financial institutions. Any change will have to be made from within the organizations

themselves according to their rules of procedure. Thus, progress toward Third World demands depends on the G-77's ability to use the General Assembly to apply political pressure on the internal decisionmaking processes of the specialized agencies. ☐

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The G-77 wants the IMF and the World Bank to serve as agents for Third World development. The industrial nations created the international financial institutions before most Third World nations achieved independence, and the G-77 claims that the structure and the objectives of the Bank and the Fund need to be "modernized" in order to meet the needs of the contemporary international economy. It wants to:

- o Expand resources available for lending to the LDCs by permitting the World Bank to guarantee and the IMF to co-finance private bank loans.
- o Link creation and allocation of Special Drawing Rights (SDRs) to LDC development needs.
- o Increase availability of IMF resources to LDCs by easing the conditionality requirement that a government implement deflationary economic policies in order to qualify for loans.
- o Increase LDC participation in Bank and Fund decisionmaking by modifying the existing system of tying a country's voting strength to its financial contribution.
- o Create a World Bank affiliate to provide concessional financing for LDC energy projects. ☐

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Receptivity to Reform

There is virtually unanimous support among industrialized countries to maintain the existing voting structure in the IMF and the World Bank. They see weighted voting as the key to preserving the financial integrity of the Bank and the Fund. However, most industrial countries are to varying degrees willing to consider marginal reforms. ☐

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Their receptivity is based on several factors. Practically all believe poverty nourishes political instability and invites Soviet meddling, and see industrialized countries' generosity as stability-enhancing. Several think increasing the volume of North-to-South resource transfers will increase the Third World's purchasing power, and hence its demand for industrialized countries' exports. Most believe effective

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management of the international monetary system requires greater Third World cooperation. Many have profitable political and economic relationships with Third World countries, and are anxious to appear conciliatory to the G-77. ☐

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Thus far, most industrial nations have given the G-77 political support but have maintained basically conservative positions in the international financial institutions. Global Negotiations could be the catalyst that impels industrialized countries to make a political decision on whether they wish to transform their reformist sentiment into concrete action. ☐

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Diplomatic Pressure

The G-77 will use Global Negotiations to pursue its strategy of making reform of the international financial institutions a political as much as an economic question. Most UN members envisage Global Negotiations in three phases. In the first phase the General Assembly will issue guidelines and recommendations to the specialized agencies. The G-77 will use this segment to dramatize and politicize its demands by packaging them into a "world economic development plan." It will then press the industrialized countries to commit themselves before the onset of the second phase to reform the financial institutions. In the second phase the specialized agencies will consider the General Assembly's suggestions, make their decisions on development policy, and report back. In the third phase, the General Assembly will assess the work of the specialized agencies. ☐

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There are incentives for most industrialized countries to acquiesce to the principle of reform. Domestic political and economic conditions inhibit them from making significant concessions to the G-77 on trade and aid. The industrialized countries view marginal reform in the financial institutions as a relatively low-cost method of pursuing their higher priority objective of maintaining good political and economic relations with the Third World. ☐

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A few industrial countries [] will take the lead in mobilizing the latent support for reform. If they construct a position that incorporates some G-77 demands but appears to preserve the integrity of the financial institutions, they will attempt to nudge other developed countries toward a consensus position within the EEC and the OECD favoring reform. []

Prospects

Consensus on proposals in the General Assembly will not translate directly into specific decisions within the financial institutions. The finance ministries of major industrial nations have a strong voice in their government's policies within the IMF and the World Bank and will resist change. During the complex technical negotiations within the financial institutions, vague generalities will emerge as watered down concrete actions. The professional staffs of the financial institutions favor decisions based on economic rather than political criteria. Nonetheless, the international financial institutions are increasingly sensitive to LDC requests for concessional development assistance. []

Global Negotiations in the UN are likely to moderately accelerate the process of evolutionary change within the international financial institutions. The independent nature of the financial institutions and the power of weighted voting give the United States a veto and the ability to control the pace of change. Political and economic incentives for Western Europe and Japan to lend support to Third World proposals mean, however, that the United States may have to act alone to ensure autonomy and financial discipline of the IMF and the World Bank. []

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